

(Amounts In Thousands)

	FY90			FY01	FY02	FY03
GF/GP	\$25,925.5			\$65,123.5	\$60,156.2	\$46,080.2
All Funds	\$106,855.3			\$168,603.4	\$169,090.6	\$155,037.5
		% Change - GF/GP			-7.6%	-23.4%
		% Change - All Funds			0.3%	-8.3%

KEY ISSUES	GF/GP	All Funds
Remove One-time Funding for Capital Access Program	(\$1,000.0)	(\$1,000.0)
Suspend Spring and Summer Economic Development Job Training Grant Awards	(\$13,000.0)	(\$13,000.0)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$41.4)	(\$41.4)
Economic Adjustments	\$199.9	\$222.8
Staff Reductions Needed to Pay for Employee Economics (2.5 FTE's)	<u>(\$234.5)</u>	<u>(\$234.5)</u>
Subtotal	(\$14,076.0)	(\$14,053.1)
FY 2003 Executive Recommendation	\$46,080.2	\$155,037.5

Michigan Strategic Fund

The Michigan Strategic Fund is the agency responsible for overseeing the state's economic development strategies. The appropriation to the Michigan Strategic Fund is used to support global and statewide business development and job creation activities, promote statewide tourism, and administer federal community development block grants. Total recommended funding for the Michigan Strategic Fund is \$155.0 million, of which \$46.1 million is general fund.

Achievements of Engler Administration

Michigan's economic development infrastructure has been evolving in response to the new economy. In fiscal year 1999, Executive Order 1999-1 transferred all economic development functions to the Michigan Strategic Fund and the Fund was moved to the Department of Management and Budget as an autonomous agency. The Michigan Strategic Fund was empowered to enter into partnerships with local governments to create the Michigan Economic Development Corporation (MEDC).

The MEDC is a public corporation and is guided by a board of directors, chaired by the Governor, and comprised of business executives, local economic developers and others interested in guiding Michigan's economic development efforts. All of the state's business services are under the umbrella of this

"Michigan is firmly entrenched as the crown jewel of economic development."

Site Selection Magazine, "It's MICH-AGAIN," March 2001

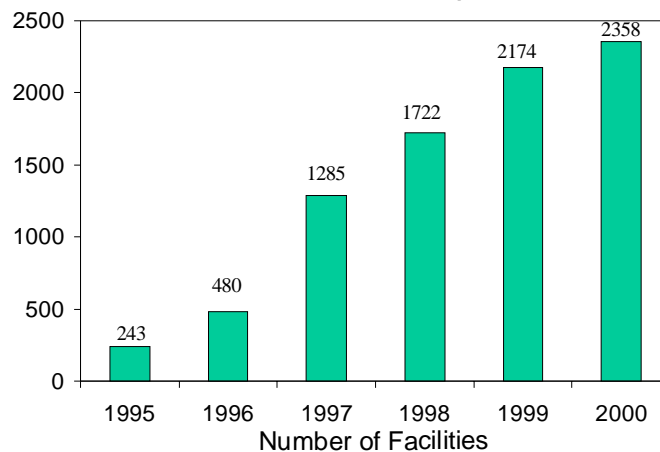
organization, creating a one-stop resource for businesses seeking to locate or expand in Michigan. The MEDC offers companies various economic development services that include site location, site infrastructure development, business finance consultation services, tax incentives and abatements, as well as worker recruitment and job training. MEDC account managers visit more than 5,000 companies each year to assess business needs.

In the financial arena, the MEDC, in conjunction with the Michigan Strategic Fund, encourages business expansion and retention by facilitating the use of property tax abatements, job creation tax credits, and infrastructure grants. To date, 216 projects have been established in Michigan's 23 tax-free Renaissance Zones located in economically depressed areas of the state, resulting in over 5,800 jobs and \$1.3 billion in private investments. The State's pioneering urban reinvestment program of brownfield redevelopment tax credits has been expanded to cover not just contaminated sites, but restoration of blighted properties. Since 1995, Michigan Economic Growth Authority (MEGA) has assisted 137 location projects, created and retained over 165,000 jobs, and generated capital investment of \$7.1 billion. As a result of these efforts, *Plants Sites & Parks* magazine awarded Michigan their 2001 Tiffany Cup as the number one "Hot State" for business sites and facilities.

To foster educational opportunities in the state, in 1998 the Governor and the Michigan Economic Development Corporation established the Michigan Virtual University (MVU) to deliver on-line education to businesses, college faculty, K-12 teachers and students. The Michigan Virtual University does not independently grant degrees; instead credentials are granted by the organization providing the program, such as public and private colleges, universities, and commercial training providers.

The MEDC is coordinating the creation of a \$60 million dollar network of 18 Michigan Technical Education Centers (M-TEC's) operated by community colleges to develop highly skilled workers in targeted fields. In fiscal year 2001, seven M-TEC's served over 500 employers, and provided training to 16,000 individuals. In addition, the state has invested over \$340 million in job training grants since 1993. *Expansion Management* magazine ranked Michigan's workforce training program third in the nation in 2001.

Business Investment –
New Locations and Expansions



The MEDC has identified three business sectors in Michigan that use technology and have the potential to transform the state's economy: information technology, life sciences, and advanced manufacturing. High-tech infrastructure is being put in place with the creation of 11 SmartZones — collaborative clusters of technological businesses and research institutions. To date, 14 high-tech businesses have located in SmartZones, resulting in over \$100 million of high tech investment in Michigan's communities. The state has committed to invest \$1 billion in the Life Sciences Corridor, a cooperative venture between Michigan's major research universities and the Van Andel Institute to promote commercialization opportunities in life sciences research.

*Michigan
ranks #1
in business
investment*

Response to Revenue Decline

The Michigan Strategic Fund reduced its fiscal year 2001 budget by \$328,000 through administrative efficiencies, vacancy savings, and economic development job training grant reductions. In addition, Executive Order 2001-9 reduced the Michigan Strategic Fund's fiscal year 2002 appropriation by \$9.8 million. Savings were achieved by deferring employee training and technology investment; by reducing out-of-state travel promotion efforts and economic development job training grants; and by reducing Life Sciences funding by \$5.0 million. In addition, one-time savings of \$2.0 million were achieved by reducing prior year work project funding.

Summary of Fiscal Year 2003 Executive Budget

Due to the continuing revenue decline, the Governor's fiscal year 2003 budget reduces the general fund appropriations for the Michigan Strategic Fund by \$14.1 million. These adjustments include the removal of one-time funding for the Capital Access Program (\$1.0 million), which had been included in the current year budget. In addition, the Governor recommends the temporary suspension of job training grants during the spring and summer of 2003, thus saving \$13.0 million general fund. The recommendation also provides funding for non-discretionary economic adjustments, but eliminates 2.5 positions to offset costs associated with employee economic increases.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to strengthen the Michigan economy, increase economic development activity through direct involvement of the MEDC				
Job Retention	62,200	77,012	78,900	74,000
Job Creation	24,473	24,016	24,600	24,800
Private Investment	\$4.7 billion	\$7.8 billion	\$5.7 billion	\$6.1 billion
In order to improve business competitiveness, provide specialized advanced skills training through the Economic Development Job Training program (number of employees of Michigan employers trained)				
	86,541	47,956	42,000	21,400
Rank in the top five states for number of new plants and expansions (as rated by national survey)				
	#1	#1	Top Five	Top Five